

**CITY OF ASHLAND, KANSAS**

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**FINANCIAL STATEMENTS  
with  
INDEPENDENT AUDITOR'S REPORT  
YEAR ENDED DECEMBER 31, 2011**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Ashland, Kansas

We have audited the accompanying primary government financial statements of City of Ashland, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards and guidance require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the component units, although not reasonably determinable, is presumed to be material.

As described in Note A, City of Ashland, Kansas, has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material.

In our opinion, because of the omission of the discretely presented component units, as discussed above, and because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of City of Ashland, Kansas as of December 31, 2011, or the changes in its financial position for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the primary government of City of Ashland, as of December 31, 2011, its cash receipts and expenditures, and budgetary comparisons for the year then ended, taken as a whole, on the basis of accounting described in Note A.

*Kennedy McKee & Company LLP*

August 20, 2012

# CITY OF ASHLAND, KANSAS

## SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning unencumbered cash balance</u>	<u>Prior year canceled encumbrances</u>
Governmental type funds:		
General fund	\$ 53,770	\$ -
Special revenue funds:		
Library	2,285	-
Special trafficway	8,299	-
Special parks and recreation	4,525	-
Special equipment	136,968	-
City Park Improvement	-	-
Permanent fund:		
George Theis, Jr. Memorial	793	-
Proprietary type funds:		
Enterprise:		
Water utility	124,241	-
Electric utility	545,756	-
Sewer utility	50,725	-
Water equipment reserve	126,542	-
Electric reserve	223,000	-
Total - excluding agency funds	<u>\$ 1,276,904</u>	<u>\$ -</u>
Composition of cash balance:		
Interest bearing checking		
Petty cash		
Certificates of deposit		
Cash with County Treasurer		
Total cash		
Agency funds		
Total cash - excluding agency funds		

The accompanying notes are an integral  
part of the financial statements.

<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending unencumbered cash balance</u>	<u>Add outstanding encumbrances and accounts payable</u>	<u>Ending cash balance</u>
\$ 381,622	\$ 418,070	\$ 17,322	\$ 484	\$ 17,806
17,027	15,811	3,501	-	3,501
22,469	23,990	6,778	-	6,778
881	-	5,406	-	5,406
10,000	14,225	132,743	-	132,743
10,416	-	10,416	-	10,416
1	21	773	-	773
231,411	216,667	138,985	759	139,744
1,422,046	1,452,034	515,768	38,673	554,441
89,782	76,877	63,630	-	63,630
378,650	493,551	11,641	-	11,641
-	-	223,000	-	223,000
<u>\$ 2,564,305</u>	<u>\$ 2,711,246</u>	<u>\$ 1,129,963</u>	<u>\$ 39,916</u>	<u>\$ 1,169,879</u>
				\$ 369,794
				350
				807,893
				<u>9,942</u>
				1,187,979
				<u>(18,100)</u>
				<u>\$ 1,169,879</u>

# CITY OF ASHLAND, KANSAS

## SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

(Budget Funds Only)

Year ended December 31, 2011

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund	\$ 425,420	\$ -	\$ 425,420	\$ 418,070	\$ 7,350
Special revenue funds:					
Library	18,489	-	18,489	15,811	2,678
Special trafficway	25,000	-	25,000	23,990	1,010
Special parks and recreation	5,000	-	5,000	-	5,000
Enterprise funds:					
Water utility	230,000	-	230,000	216,667	13,333
Electric utility	1,672,500	-	1,672,500	1,452,034	220,466
Sewer utility	112,532	-	112,532	76,877	35,655
Total	<u>\$ 2,488,941</u>	<u>\$ -</u>	<u>\$ 2,488,941</u>	<u>\$ 2,203,449</u>	<u>\$ 285,492</u>

The accompanying notes are an integral  
part of the financial statements.

# CITY OF ASHLAND, KANSAS

## GENERAL FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Taxes and shared revenue:				
Ad valorem property tax	\$ 144,318	\$ 145,779	\$ 148,141	\$ (2,362)
Delinquent tax	-	9,134	760	8,374
Motor vehicle tax	38,547	41,786	44,037	(2,251)
Recreational vehicle tax	681	615	594	21
16/20M truck tax	147	112	148	(36)
Local alcoholic liquor	1,118	881	1,007	(126)
Interconnecting links	12,804	12,804	12,795	9
Licenses fees, fines and permits:				
Franchise fees	16,832	15,378	18,000	(2,622)
Fines	167	127	200	(73)
Licenses and permits	555	610	500	110
Charges for services:				
Cemetery	2,815	3,659	2,000	1,659
Swimming pool	4,325	4,432	4,000	432
Use of money and property:				
Farm income	4,500	8,000	8,400	(400)
Airport receipts	15,553	22,487	12,000	10,487
Miscellaneous	8,169	8,318	5,000	3,318
Transfer from electric fund	160,000	107,500	107,500	-
Total cash receipts	<u>410,531</u>	<u>381,622</u>	<u>\$ 365,082</u>	<u>\$ 16,540</u>
Expenditures:				
General government:				
General operations	126,685	126,673	\$ 130,000	\$ 3,327
Cemetery	16,069	18,477	19,500	1,023
Employee benefits	38,692	37,090	42,000	4,910
Neighborhood revitalization rebate	-	-	420	420
Nuisance abatement	5,345	147	10,000	9,853
Subtotal	<u>186,791</u>	<u>182,387</u>	<u>201,920</u>	<u>19,533</u>
Public safety:				
Fire department	<u>10,478</u>	<u>11,870</u>	<u>15,000</u>	<u>3,130</u>



# CITY OF ASHLAND, KANSAS

## GENERAL FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET (CONTINUED)

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Highways and streets:				
Streets and alleys	\$ 157,291	\$ 168,412	\$ 160,000	\$ (8,412)
Spraying	-	-	1,000	1,000
Subtotal	157,291	168,412	161,000	(7,412)
Culture and recreation:				
Park department	5,782	4,157	4,500	343
Swimming pool	36,641	29,065	25,000	(4,065)
Airport	15,669	22,179	18,000	(4,179)
Subtotal	58,092	55,401	47,500	(7,901)
Transfer to special equipment fund	10,000	-	-	-
Total expenditures	422,652	418,070	\$ 425,420	\$ 7,350
Receipts over (under) expenditures	(12,121)	(36,448)		
Unencumbered cash, beginning of year	65,891	53,770	\$ 60,338	\$ (6,568)
Unencumbered cash, end of year	\$ 53,770	\$ 17,322		

The accompanying notes are an integral  
part of the financial statements.

# CITY OF ASHLAND, KANSAS

## LIBRARY FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 12,947	\$ 12,405	\$ 12,606	\$ (201)
Delinquent tax	-	807	68	739
Motor vehicle tax	3,462	3,750	3,951	(201)
Recreational vehicle tax	61	55	53	2
16/20M truck tax	13	10	13	(3)
Total cash receipts	16,483	17,027	\$ 16,691	\$ 336
Expenditures:				
Neighborhood revitalization rebate	-	-	\$ 36	\$ (36)
Transfer to component unit	17,412	15,811	18,453	2,642
Total expenditures	17,412	15,811	\$ 18,489	\$ 2,606
Receipts over (under) expenditures	(929)	1,216		
Unencumbered cash, beginning of year	3,214	2,285	\$ 1,798	\$ 487
Unencumbered cash, end of year	\$ 2,285	\$ 3,501		

The accompanying notes are an integral  
part of the financial statements.

**CITY OF ASHLAND, KANSAS**

**SPECIAL TRAFFICWAY FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET**

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Gasoline tax	\$ 23,122	\$ 22,469	\$ 23,740	\$ (1,271)
Expenditures:				
Contractual services	6,457	2,475	\$ 25,000	\$ 22,525
Commodities	56,057	21,515	-	(21,515)
Total expenditures	62,514	23,990	\$ 25,000	\$ 1,010
Receipts over (under) expenditures	(39,392)	(1,521)		
Unencumbered cash, beginning of year	47,691	8,299	\$ 1,691	\$ 6,608
Unencumbered cash, end of year	\$ 8,299	\$ 6,778	\$ 431	\$ 6,347

The accompanying notes are an integral  
part of the financial statements.

# CITY OF ASHLAND, KANSAS

## SPECIAL PARKS AND RECREATION FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Local alcoholic liquor	\$ 1,118	\$ 881	\$ 1,007	\$ (126)
Expenditures:				
Culture and recreation:				
Commodities	-	-	\$ 2,500	\$ 2,500
Capital outlay	-	-	2,500	2,500
	-	-	\$ 5,000	\$ 5,000
Receipts over (under) expenditures	1,118	881		
Unencumbered cash, beginning of year	3,407	4,525	\$ 4,376	\$ 149
Unencumbered cash, end of year	\$ 4,525	\$ 5,406	\$ 383	\$ 5,023

The accompanying notes are an integral  
part of the financial statements.

# CITY OF ASHLAND, KANSAS

## WATER UTILITY FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
	2011			Variance
	2010	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 198,857	\$ 228,274	\$ 164,000	\$ 64,274
Use of money and property	3,371	3,137	2,500	637
Total cash receipts	202,228	231,411	\$ 166,500	\$ 64,911
Expenditures:				
Production	30,061	30,969	\$ 50,000	\$ 19,031
Transmission and distribution	41,332	63,913	40,000	(23,913)
General and administrative	42,050	38,817	60,000	21,183
Capital outlay	-	-	30,000	30,000
Debt service	-	52,968	-	(52,968)
Transfer to water equipment reserve	79,000	30,000	50,000	20,000
Total expenditures	192,443	216,667	\$ 230,000	\$ 13,333
Receipts over (under) expenditures	9,785	14,744		
Unencumbered cash, beginning of year	114,456	124,241	\$ 124,241	\$ -
Unencumbered cash, end of year	\$ 124,241	\$ 138,985	\$ 60,741	\$ 78,244

The accompanying notes are an integral  
part of the financial statements.

# CITY OF ASHLAND, KANSAS

## ELECTRIC UTILITY FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			
		2011		
	2010	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 1,425,811	\$ 1,420,848	\$ 1,500,000	\$ (79,152)
Use of money and property	3,030	1,044	-	1,044
Other	19,064	154	-	154
Total cash receipts	<u>1,447,905</u>	<u>1,422,046</u>	<u>\$ 1,500,000</u>	<u>\$ (77,954)</u>
Expenditures:				
Production	980,885	1,070,575	\$ 1,100,000	\$ 29,425
Transmission and distribution	85,639	92,089	130,000	37,911
General and administrative	93,513	71,870	125,000	53,130
Capital outlay	-	-	200,000	200,000
Transfer to general fund	160,000	107,500	107,500	-
Transfer to water equipment reserve	355,000	100,000	-	(100,000)
Transfer to special equipment	-	10,000	10,000	-
Total expenditures	<u>1,675,037</u>	<u>1,452,034</u>	<u>\$ 1,672,500</u>	<u>\$ 220,466</u>
Receipts over (under) expenditures	(227,132)	(29,988)		
Unencumbered cash, beginning of year	<u>772,888</u>	<u>545,756</u>	<u>\$ 272,887</u>	<u>\$ 272,869</u>
Unencumbered cash, end of year	<u>\$ 545,756</u>	<u>\$ 515,768</u>	<u>\$ 100,387</u>	<u>\$ 415,381</u>

The accompanying notes are an integral  
part of the financial statements.

# CITY OF ASHLAND, KANSAS

## SEWER UTILITY FUND

### STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

	Year ended December 31,			Variance favorable (unfavorable)
	2010	Actual	Budget	
Cash receipts:				
Customer charges	\$ 87,224	\$ 86,423	\$ 87,500	\$ (1,077)
Use of money and property	3,283	3,119	3,000	119
Other	-	240	-	240
Total cash receipts	<u>90,507</u>	<u>89,782</u>	<u>\$ 90,500</u>	<u>\$ (718)</u>
Expenditures:				
Production	21,546	17,553	\$ 22,000	\$ 4,447
Transmission and distribution	7,494	8,158	12,000	3,842
General and administrative	4,590	6,308	3,500	(2,808)
Capital outlay	-	-	30,000	30,000
Debt service	44,858	44,858	45,032	174
Total expenditures	<u>78,488</u>	<u>76,877</u>	<u>\$ 112,532</u>	<u>\$ 35,655</u>
Receipts over (under) expenditures	12,019	12,905		
Unencumbered cash, beginning of year	<u>38,706</u>	<u>50,725</u>	<u>\$ 39,674</u>	<u>\$ 11,051</u>
Unencumbered cash, end of year	<u>\$ 50,725</u>	<u>\$ 63,630</u>	<u>\$ 17,642</u>	<u>\$ 45,988</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF ASHLAND, KANSAS**

**SPECIAL EQUIPMENT FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES**

	Year ended December 31,	
	2010	2011
Cash receipts:		
Transfer from general fund	\$ 10,000	\$ -
Transfer from electric fund	-	10,000
Total cash receipts	10,000	10,000
Expenditures:		
Commodities	4,057	14,225
Capital outlay	14,955	-
Total expenditures	19,012	14,225
Receipts over (under) expenditures	(9,012)	(4,225)
Unencumbered cash, beginning of year	145,980	136,968
Unencumbered cash, end of year	\$ 136,968	\$ 132,743

The accompanying notes are an integral  
part of the financial statements.



**CITY OF ASHLAND, KANSAS**

**CITY PARK IMPROVEMENT**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES**

	Year ended December 31,	
	2010	2011
Cash receipts:		
Donations	\$ -	\$ 10,416
Expenditures:		
Capital outlay	-	-
Receipts over (under) expenditures	-	10,416
Unencumbered cash, beginning of year	-	-
Unencumbered cash, end of year	<u>\$ -</u>	<u>\$ 10,416</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF ASHLAND, KANSAS**

**GEORGE THEIS, JR. MEMORIAL FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES**

	Year ended December 31,	
	2010	2011
Cash receipts:		
Interest	\$ 1	\$ 1
Expenditures:		
Administrative	19	21
Receipts over (under) expenditures	(18)	(20)
Unencumbered cash, beginning of year	811	793
Unencumbered cash, end of year	<u>\$ 793</u>	<u>\$ 773</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF ASHLAND, KANSAS**

**WATER EQUIPMENT RESERVE FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES**

	Year ended December 31,	
	2010	2011
Cash receipts:		
General obligation bond proceeds	\$ -	\$ 248,650
Transfer from water utility fund	79,000	30,000
Transfer from sewer depreciation reserve fund	3,000	-
Transfer from electric utility fund	355,000	100,000
	437,000	378,650
Expenditures:		
Capital improvements	413,620	493,551
Receipts over (under) expenditures	23,380	(114,901)
Unencumbered cash, beginning of year	103,162	126,542
Unencumbered cash, end of year	<u>\$ 126,542</u>	<u>\$ 11,641</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF ASHLAND, KANSAS**

**ELECTRIC RESERVE FUND**

**STATEMENT OF CASH RECEIPTS AND EXPENDITURES**

	Year ended December 31,	
	2010	2011
Cash receipts:		
Transfer from electric fund	\$ -	\$ -
Expenditures:		
Capital improvements	-	-
Receipts over (under) expenditures	-	-
Unencumbered cash, beginning of year	223,000	223,000
Unencumbered cash, end of year	<u>\$ 223,000</u>	<u>\$ 223,000</u>

The accompanying notes are an integral  
part of the financial statements.

**CITY OF ASHLAND, KANSAS**

**CASH RECEIPTS AND CASH DISBURSEMENTS –  
ALL AGENCY FUNDS**

Year ended December 31, 2011

<u>Fund</u>	<u>Beginning cash balance</u>	<u>Cash receipts</u>	<u>Cash disbursements</u>	<u>Ending cash balance</u>
Sanitation fund	\$ 287	\$ 93,884	\$ 94,172	\$ -
Customer deposits fund	15,390	10,075	7,365	18,100
City sales tax	-	100,382	100,382	-
	<u>\$ 15,677</u>	<u>\$ 204,341</u>	<u>\$ 201,919</u>	<u>\$ 18,100</u>

The accompanying notes are an integral  
part of the financial statements.

# **CITY OF ASHLAND, KANSAS**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

### **A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies applied in the preparation of the accompanying financial statements is presented to assist in understanding the City's financial statements, which are presented in conformity with the cash basis and budget laws of the State of Kansas. The financial statements and notes are the representation of the City's management, which is responsible for their integrity and objectivity. The amounts shown for 2010 in the accompanying financial statements are included, where practicable, only to provide a basis for comparison with 2011, and are not intended to present all information necessary for a fair presentation in accordance with the basis of accounting as described below.

#### **1. Financial reporting entity**

The City of Ashland, Kansas, was incorporated under the laws of the State of Kansas and operates under a mayor and five-member council form of government. These financial statements present the City of Ashland, Kansas, (the primary government) and do not include its component unit.

##### **Component unit**

*Ashland City Library:* The members of the governing board of the Library are appointed by the City Council. The Library is fiscally dependent on the City because the budget is approved by the City Council. In addition, the Library is prohibited from issuing bonded debt without the approval of the City Council.

Complete financial statements of the component unit can be obtained from its administrative office located at:

Ashland City Library  
604 Main Street  
Ashland, Kansas 67831

#### **2. Fund accounting**

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three generic types of funds and five broad fund categories as follows:

### **GOVERNMENTAL TYPE FUNDS**

These are the funds through which most governmental functions typically are financed. The funds included in this category are as follows:

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2. Fund accounting (continued)

#### **GOVERNMENTAL TYPE FUNDS (CONTINUED)**

##### General Fund

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

##### Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

##### Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the city programs.

#### **PROPRIETARY TYPE FUNDS**

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds.

##### Enterprise Funds

These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

#### **FIDUCIARY TYPE FUNDS**

##### Agency Funds

These funds account for assets held by the City as agent for individuals, private organizations, and other units of government.

### 3. Statutory basis of accounting

The statutory basis of accounting as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure is charged in the fund from which the transfer is made.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3. Statutory basis of accounting (continued)

The City has adopted a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

### 4. Departure from generally accepted accounting principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. A statement of net assets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance is not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, temporary notes, and compensated absences is not presented in the financial statements as liabilities. Long-term debt is shown in Note C.

### 5. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The Water Utility Fund budget was amended to increase the budgeted expenditures from the original budget amount of \$200,000 to an amended budgeted amount of \$230,000.



## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5. Budgetary information (continued)

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for the George Theis, Jr. Memorial fund, the Special Equipment and City Park Improvement special revenue funds, agency funds or the utility reserve funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by state statutes, or by the use of internal spending limits established by the governing body.

### 6. Cash and investments

Cash balances from all funds are combined and invested to the extent available in authorized investments. Earnings from these investments are allocated to designated funds. Investments consist of interest-bearing checking accounts and certificates of deposit.

### 7. Ad valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk allocates the annual assessment to the taxing units. Taxes are levied by November 1, and a lien for all taxes shall attach on that same date until the taxes are paid. One-half of the property taxes are due December 20 and distributed by January 20 and the second half is due May 10 and distributed by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

### 8. Section 125 Plan

The City offers a Section 125 flexible benefit plan to employees electing to participate. It is used for health insurance premiums. The plan is administered by an independent provider.

### 9. Pension plan

Substantially all full-time employees are members of the State of Kansas Public Employees' Retirement System which is a multi-employer state-wide pension plan. The City's policy is to fund all pension costs accrued; such costs to be funded are determined annually by the system's actuary.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 10. Compensated absences

The City's policy requires all vacation time to be used currently with no provisions for accumulation. Sick leave may be accumulated up to thirty days, but unused sick leave is not paid upon termination or resignation. The City does not, therefore, accrue amounts for compensated absences, as the amounts are not material in relation to the financial statements taken as a whole, and these costs are expensed as paid.

### 11. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical needs of employees. The City purchases commercial insurance to cover property, liability and worker's compensation claims. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

### 12. Other Post Employment Benefits

As provided by K.S.A. 12-540, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level of premium regardless of age. However the cost of this subsidy has not been quantified in these financial statements.

## B. DEPOSITS AND INVESTMENTS

*Policies.* The City has no formal deposit and investment policies; however it does follow state statutes. K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks to provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

*Custodial credit risk - deposits.* Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. At year-end the carrying amount of the City's deposits, including certificates of deposit, was \$1,177,937. The bank balance was \$1,217,685. Of the bank balance, \$500,002 was covered by FDIC insurance, and \$717,683 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name.

### C. LONG-TERM DEBT

Changes in long-term liabilities for the entity for the year ended December 31, 2011, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance end of year</u>	<u>Interest and service fees paid</u>
General obligation:					
General obligation bonds					
Issued January 27, 2011					
In the amount of \$250,000					
At interest rates of .9% to 2%					
Maturing November 1, 2015	\$ -	\$ 250,000	\$ 50,000	\$ 200,000	\$ 2,968
Kansas Water Pollution					
Control Revolving Loan					
Issued April 29, 1994					
In the amount of \$609,514					
At interest rate of 3.43%					
Maturing September 1, 2014	166,340	-	39,489	126,851	5,370
Total long-term debt	<u>\$ 166,340</u>	<u>\$ 250,000</u>	<u>\$ 89,489</u>	<u>\$ 326,851</u>	<u>\$ 8,338</u>

Current maturities of general obligation bonds and loans and interest through maturity are as follows:

	<u>Principal due</u>	<u>Interest and service fees due</u>	<u>Total due</u>
2012	\$ 91,013	\$ 7,176	\$ 98,189
2013	92,341	5,411	97,842
2014	93,407	3,050	96,457
2015	50,000	1,000	51,000
Total	<u>\$ 326,851</u>	<u>\$ 16,637</u>	<u>\$ 343,488</u>

### D. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources to provide services, construct assets and service debt. The governmental and proprietary type funds financial statements generally reflect such transactions as transfers.

A summary of interfund operating transfers is as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Statutory authority</u>
Electric fund	General	\$ 107,500	K.S.A. 12-825d
Electric fund	Water equipment reserve	100,000	K.S.A. 12-825d
Electric fund	Special equipment	10,000	K.S.A. 12-825d
Water	Water equipment reserve	30,000	K.S.A. 12-825d
		<u>\$ 247,500</u>	

#### E. DEFINED BENEFIT PENSION PLAN

*Plan description.* The City participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

*Funding Policy.* K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% for Tier 1 employees (generally active members prior to July 1, 2009) and 6% for Tier 2 employees (generally active members on or after July 1, 2009) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for 2011 was 7.74%. The City contributions to KPERS for the years ending December 31, 2011, 2010, and 2009, were \$26,004, \$23,331, and \$21,480, respectively, equal to the statutory required contributions for each year.

#### F. RELATED PARTY TRANSACTIONS

The City paid approximately \$39,000 in insurance premiums during the year to an insurance company of which two City Council members are officers.

#### G. DEBT LIMITATION

The amount of long-term debt that can be incurred by the City is limited by K.S.A. 10-308. K.S.A. 10-309 provides for certain exemptions and K.S.A. 10-311 exempts revenue bond issues from the overall limitation. Except as provided in other statutes the total outstanding bonded indebtedness during a year can be no greater than 30% of the assessed value of taxable tangible property as certified to the County Clerk on the preceding August 25. As of December 31, 2011, the City did not have any debt subject to the limitations imposed by K.S.A. 10-308.

#### H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 20, 2012, the date on which the financial statements were available to be used. Management has been notified that they are required to install catalytic converters on the engines at the electrical plant by 2014. The cost of these will total approximately \$400,000, and will be paid in 2012 and 2013.